

UNITED STATES GOVERNMENT

# memorandum

DATE: August 7, 1997

EX PARTE OR LATE FILED

REPLY TO

ATTN OF: Natalie D. Wales, Attorney-Advisor, Universal Service Branch,  
Accounting & Audits Division, Common Carrier Bureau

SUBJECT: *Ex Parte* on Cost Models -- Switching and Transport  
CC Docket Nos. 96-45 and 97-160 /

TO: William F. Caton, Acting Secretary

RECEIVED  
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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

On July 30, 1997, members of industry, Commission staff, and State staff members of the Federal-State Joint Board on Universal Service met to discuss platform design issues relating to BCPM and Hatfield 4.0, cost models submitted to the Commission by members of industry. The cost models attempt to estimate the forward-looking economic costs that non-rural local exchange carriers would incur to provide universal service in rural, insular, and high cost areas.

This memo expands upon the *ex parte* letter filed on July 31, 1997, by providing a more detailed summary of the participants' discussions. The agenda topics for the meeting were the platform design issues relating to switching, interoffice trunking, signaling, and local tandem components, as outlined in the Further Notice of Proposed Rulemaking.<sup>1</sup> Discussion focused on the current methods of modeling switching costs in BCPM and Hatfield 4.0, how the accuracy of the switching components could be improved, and how these components could be more accessible for public scrutiny. The participants also considered the models' treatment of host-remote switch arrangements.

BCPM's use of SCIS for switching cost estimates:

--The parties discussed whether BCPM's use of the SCIS model comports with the requirement in the Order that the cost models be public, open, and verifiable.<sup>2</sup>

-- As a former employee of Bellcore, Cathy Petzinger of AT&T stated that the Switching Cost Information System (SCIS) owned by Bellcore models hosts and remotes separately, uses user-inputs for prices, only deals with investment costs, and does not perform optimization calculations.

-- Glenn Brown of U S WEST suggested that the SCIS may be more appropriate for modeling unbundled network elements than for modeling universal service, and stated that the BCPM proponents are considering another approach to estimating switch costs.

<sup>1</sup> Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket Nos. 96-45 and 97-160, *Further Notice of Proposed Rulemaking*, FCC 97-256 (rel. Jul. 18, 1997).

<sup>2</sup> See Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, FCC 97-157 (rel. May 8, 1997) at para. 250, criterion 8.

Hatfield's modeling of switch costs:

-- AT&T representatives described their approach to modeling switch costs, which is described in their August 5, 1997, ex parte filing.  
-- Glenn Brown of U S WEST questioned whether Hatfield cost estimates are accurate because of the lack of cost data for independent telephone companies.

Obtaining switch cost data from switch manufacturers:

-- Ex parte participants discussed the possibility of opening a dialogue between Commission staff and switch manufacturers to examine the manufacturers' confidentiality concerns about providing aggregate switching cost data to the public. One problem with using data from switch manufacturers is that off-the-shelf prices are likely to be significantly different than prices resulting from actual contracts and carrier discounts. Another problem raised by AT&T representatives was that switch manufacturers may not have the incentives to minimize costs.

On host/remote issue:

-- Both model proponents stated that, while their models include cost data for both hosts and remotes, neither model distinguishes between hosts and remotes in terms of the actual switch placed in a given location. The model proponents do not plan to revise their model components to account for different switch types.  
-- AT&T representatives stated that the issue of whether the models should distinguish between host and remote switches is a question of what the costs of a small switch are in comparison to a remote switch. According to AT&T, optimization of host-remote usage is dependent on a variety of factors, such as the investment costs, the availability of maintenance personnel in the area, etc. ILEC's historical decisions to place certain switch types in certain locations may not have been based on cost-minimization. Because the current module uses aggregate cost data that includes hosts, remotes, and stand-alone switches, there is no need to optimize host-remote usage in the model. If the model specifies what switch type is in particular a location, however, the model should optimize host-remote usage.

Participants in July 30, 1997 meeting:

In person:

Glenn Brown -- U S WEST  
Rich Clarke -- AT&T  
Bryan Clopton -- FCC  
Warren Hannah -- Sprint  
Whit Jordan -- BellSouth  
Chuck Keller -- FCC  
Mark Kennet -- FCC  
Bob Loube -- FCC  
Cathy Petzinger -- AT&T  
Bill Sharkey -- FCC  
Natalie Wales -- FCC  
Brad Wimmer -- FCC

By telephone:

Charlie Bolle -- SD PUC  
Mark Bryant -- MCI  
Richard Chandler -- Hatfield  
Brenda Kahn -- AT&T  
Lori Kenyon -- AK PUC  
Mike Lieberman -- AT&T  
Sandra Makeeff -- IA Util. Bd.  
Thor Nelson -- CO, Consumer Counsel  
Barry Payne -- IN, Consumer Counsel  
Brian Roberts -- CA PUC  
Tiane Sommer -- GA PSC  
Kevin Schwenzfeier -- NY, Pub. Serv.

Two copies of this memo are being submitted to the Commission Secretary in accordance with section 1.1206(a)(1) and (3) of the Commission's rules.